

~~CONFIDENTIAL~~#12
28 Feb 46

GENERAL

1. Slow progress in drafting Italian peace treaty--Dunn reports that the committee drafting the Italian peace treaty at the Council of Foreign Ministers has so far agreed only on the preamble and two articles. Both of those articles relate to Italian prisoners of war, and the Soviet delegation has reserved the right to challenge one of them later.

The State Department considers that a treaty drawn up on the basis of the present divergent views among the powers concerned would be harsher than any one of those powers wishes imposed upon Italy. To avoid further delays and to insure a just and lasting settlement, the Department has instructed Dunn to propose to the Allied delegations that "each power recede from the demands and restrictions [which] it wants imposed on Italy, in order that through compromise there may be a settlement to the best interest of all."

EUROPE-AFRICA

2. AUSTRIA: Soviet policy--Erhardt and General Clark in separate reports have commented at length on concerted Soviet efforts to bring Austria completely within the Soviet commercial orbit by weakening the country's economy and blocking all attempts to foster Austrian trade with the West.

Erhardt reports that the following fundamentals of Soviet policy in Austria have been consistently apparent in all recent inter-Allied meetings: (a) exclusive Soviet control of the Danube; (b) outright seizure of German property in eastern Austria with no regulation by the Austrian Government or the Allied Council; and (c) exclusive Soviet control of trade and other relations with Soviet-occupied or dominated countries. He points out that in all three instances time is working on the side of the Soviets. Erhardt concludes that only action between the Allied Governments affecting the disposition of former German assets, reduction of Soviet occupation forces, and Soviet penetration into Austria's economy and Danubian trade can decide whether Austria is to be

Document No. 015NO CHANGE in Class. ☐☐ DECLASSIFIED

Class. CHANGED TO: TS S (C)

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 10 MAR 1978 By:

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~~CONFIDENTIAL~~

~~TOP SECRET~~
CONFIDENTIAL

an independent democracy or a Soviet satellite.

General Clark agrees with Erhardt's survey and states that his own efforts in the Allied Council to facilitate Austria's economic recovery have been blocked by veto action on the part of the Soviet representative. In addition, he reports that Soviet occupation forces in Austria are estimated at 130,000, while US troops number only 32,000 and by 1 April will be reduced to 12,000. The Soviets have refused to discuss any reduction of their forces, the support of which imposes a heavy financial burden on Austria.

3. HUNGARY: USSR industrial agreements--Schoenfeld reports increasing Soviet pressure to force Hungary to accept joint USSR-Hungarian-owned corporations so as to facilitate Soviet control of the Hungarian economy. Despite opposition by business interests, Schoenfeld expects early Hungarian acceptance of most of the Soviet proposals in the hope of appeasing Voroshilov and thereby obtaining authority to issue million pengo denomination currency and Soviet consideration of the Government's reparations proposals. Schoenfeld believes that favorable non-communist press reaction to the US offer of a \$10,000,000 loan may have influenced the Prime Minister to ask the press to avoid a pro-Anglo-Saxon slant in view of the important economic discussions now pending with the Soviets.
4. YUGOSLAVIA: Comments on Venezia Giulia troop movements--AFHQ discounts Marshal Tito's explanation to the British Ambassador at Belgrade that recent Yugoslav troop movements into Venezia Giulia were merely to bring the four divisions in Zone B up to full strength. AFHQ points out that: (a) the speed and organization of the movements give the impression of a carefully planned operational move; (b) the new forces do not appear to be merging into the framework of units already in Zone B; and (c) the new forces include an armored division and a tank brigade, which AFHQ does not believe will be disbanded simply to furnish replacements.

~~TOP SECRET~~
CONFIDENTIAL

~~TOP SECRET~~

CONFIDENTIAL

5. SPAIN: France requests UNO action--Embassy Paris has received a note from Bidault requesting that the US associate itself with France in submitting the Spanish situation to the Security Council. A similar approach has been made to the British and Soviet Governments. Embassy London reports that the British Foreign Office regrets France's decision, fearing that Franco's position within Spain will be strengthened by Moscow's entry into the picture.
6. LEVANT STATES: Withdrawal of UK troops promised--Embassy London reports that the UK has delivered a note to the Syrian and Lebanese Governments stating that in view of British acceptance of the majority opinion of the Security Council, the UK no longer considers itself bound by its 15 December assurance that British troops would not be withdrawn from Syria and Lebanon as long as French troops remained. The British will send a representative to Paris, however, to urge simultaneous action with the French. If unsuccessful, British forces will still be withdrawn.

FAR EAST

7. JAPAN: JCS orders Japanese warships destroyed--JCS has directed General MacArthur to destroy all Japanese combat vessels, with the exception of destroyers and surface vessels of lesser tonnage. However, JCS has authorized General MacArthur to use temporarily for repatriation and other duties the vessels to be destroyed and has directed him to transfer vessels to be used for experiments or as targets to the US services requiring them.
8. CHINA: China Theater inactivation date questioned--General Eisenhower requests more information from General Wedemeyer in order to assure the War, State and Navy Departments that 1 May is not a premature date for inactivating the China Theater. He asks whether operational functions to be carried out subsequent to an announced date of inactivation would nullify the benefits to be derived from inactivation. The State Department has concurred in setting up the military Advisory Group with

CONFIDENTIAL

~~TOP SECRET~~

~~TOP SECRET~~
CONFIDENTIAL

the understanding that it would confine itself to advice to the Chinese military and assistance in training matters.

9. CHINA: Limited initial reoccupation of Manchuria--Embassy Chungking reports that Chinese reoccupation of Manchuria will be confined to those areas in Manchuria not under Soviet control, pending further Sino-Soviet negotiations.
10. INDIA: British view on Bombay riots--The War Office, in reply to an inquiry by the US Military Attache in London as to its views on the Bombay riots, has stated that the leaders of both the Congress Party and Moslem League cooperated in condemning and attempting to stop civil disturbances, while the Communist Party thanked the public for its support. Individual British officials have told the MA privately of their belief that the Indian Communists receive orders from Moscow. The MA comments that Soviet policy apparently aims to foment discord and native violence in British-controlled areas as a means of extending Soviet influence.
11. N.E.I.: Clark Kerr pessimistic over negotiations--Consul General Foote reports that Clark Kerr is most pessimistic with regard to the Dutch-Indonesian negotiations. Clark Kerr fears that the Indonesian National Committee will refuse to continue discussions unless the Dutch proposals are modified and that Sjahrir will be replaced by Soebardjo, with whom the Dutch say they will not negotiate. In Clark Kerr's opinion, the Indonesians will gain by stalling, since the British will not fight them and the Dutch cannot.
12. SEVENTH FLEET: Merchant ship requested for mission to Dairen--At the instruction of General Marshall, the Consul General Shanghai has requested that Admiral Cooke provide a merchant-type vessel for transporting Consul General Sturgeon to Dairen, (See Summary of 26 February)

CONFIDENTIAL

~~TOP SECRET~~

~~TOP SECRET~~

CONFIDENTIAL

THE AMERICAS

13. BRAZIL: Domestic and foreign prospects--Prior to relinquishing his post in Rio on 27 February, Ambassador Berle set forth his estimate of the probable course of Brazilian developments during the coming months. He reported that the political situation is stable for the time being, and the political outlook is promising. Dutra's Government party and Gomes' opposition party are working well together in the Government, and both will cooperate against obstructionist tactics by the Communist group, whose influence seems to be waning because of its foreign policy. Vargas' importance diminishes daily. The Army is out of politics and enjoying the prestige gained by its decision not to intervene except to guarantee elections.

In foreign affairs, Brazil's first concern is with the struggle between the USSR and the US and UK. Any Brazilian Government, other than a communist one, will do everything it can to strengthen cooperation with the US. Of secondary concern is the Argentine question; Brazil's bread basket is being cut off by Argentine tactics, and Brazil fears that Argentina may become a bridgehead for Soviet maneuvers.

14. URUGUAY: Status of Graf Spee internees--The State Department has advised Embassy Montevideo that it still regards the Graf Spee internees legally as prisoners of war whom Uruguay is obligated to return to Germany.

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